

EIR Strategic Analysis

World on the Verge Of a Dollar Crash

by Jeffrey Steinberg

Lyndon LaRouche announced on March 9, based on a breaking pattern of developments, that, in his judgment, the world is now on the verge of a collapse of the entire dollar-based post-Bretton Woods floating-exchange-rate system. This does not guarantee the immediate crash of the dollar, and the evaporation of the entire global financial superstructure. It does mean that governments around the world, particularly the United States government, must be prepared to act, to avert an otherwise inescapable crisis at some point in the very near future.

It also means, LaRouche warned, that some circles in the financial oligarchy, typified by hard-core Anglo-Dutch operatives like George P. Shultz and Federal Reserve Chairman Alan Greenspan, will be tempted to move for immediate Schachtian austerity measures, and war provocations, as a means of blocking so much as a serious discussion about what former President Bill Clinton referred to as a “new global financial architecture,” replacing the broken-down and hopelessly bankrupt current system. Since January 1997, LaRouche has been demanding the convening of a New Bretton Woods Conference, to restore the fixed-exchange-rate system, following an orderly bankruptcy reorganization of the global financial system. This, LaRouche argues, is the precondition for the massive emission of government credits required for long-term infrastructure projects, such as his Eurasian Land-Bridge.

As LaRouche emphasized in the foreword to a soon-to-be-released book, *The Earth's Next Fifty Years*, the collapse of the dollar system is not something that is about to happen. It is already under way. Metaphorically, the gasoline has already saturated the floor. We are merely awaiting the spark, which could come in any one of a number of forms. Events of early March, in LaRouche's estimation, signaled a density

of such potential sparks.

In response, LaRouche warned, governments in the Americas and Eurasia must be prepared to abandon the false axiomatic assumptions that have plagued policymakers for the past 30 years or more—since the abandonment (by Shultz and President Nixon in 1971) of Franklin Roosevelt's Bretton Woods System of fixed exchange rates, pegged to a monetized value of gold. Until and unless the axioms of what is euphemistically called “globalization” are abandoned, the prospects of averting a plunge into a multi-generational new dark age are bleak.

The Warning Signs

Since the late January 2005 convening of the Davos, Switzerland World Economic Forum, a growing number of leading financial analysts and financial periodicals have abandoned the “see no evil” policy of ignoring the warning signs of a global financial meltdown, and have begun openly discussing a systemic collapse. Prominent figures like Stephen Roach, the chief economist of Morgan Stanley, pilloried Federal Reserve Chairman Greenspan in public at Davos, accusing him of presiding over the biggest mortgage and consumer credit bubble ever. A week after Davos, former U.S. Treasury Secretary Robert Rubin, at a London forum preceeding the Group of Eight meeting of finance ministers and central bankers, directly took on Greenspan for lying about the magnitude of the dollar crisis, when he (Greenspan) claimed that the United States could continue to sustain massive current account deficits and Federal budget deficits. In meetings with Senate Democrats the day before his confrontation with Greenspan, Rubin had warned that the Bush Administration's campaign to loot the Social Security Trust Fund for “private accounts” managed by big Wall Street brokerage houses, was

driven by the fear of a financial meltdown, perhaps caused by a drying up of foreign investment flows into the United States.

There was some dispute among academic economists at Davos about the amount of net foreign inflows into the U.S. bond and equity market per day that are required to avert a crash of the dollar. The bottom line figure is \$2.5 billion per day, but some economists, like C. Fred Bergsten, say the figure is really now at nearly \$5 billion a day.

Hence, there was panic on Wall Street when officials of the South Korean government in early March hinted that they were considering diversifying their foreign currency holdings. On March 10, the alarm bells rang again, when Japanese Prime Minister Koizumi made similar statements about Japan's plans to diversify. The dollar immediately fell to a two-month low against the euro, until Japan's Finance Minister Tanigaki stepped in to assure panicked investors that Japan would not take any precipitous measures, "because the impact would be big."

Mega-speculator Warren Buffett, of Berkshire Hathaway, released his annual shareholders letter in early March, revealing that his firm had posted significant fourth quarter profits by short-selling the dollar, and investing heavily in foreign currencies.

It's The Real Economy, Stupid

But the real heart of the collapse threat lies elsewhere: The U.S. economy, once the greatest agro-industrial economy in the world, has disintegrated; and the role of the dollar as the world's reserve currency has been decimated by that fact. Now, as LaRouche emphasized, we are facing an imminent bankruptcy of General Motors, one of the most formidable of the former American industrial giants. On March 10, the London *Financial Times* warned that international bond markets may not be able to cushion the shock of an anticipated downgrading of GM's debt to junk-bond status. The likely trigger for such a move by rating agencies is the anticipated bankruptcy filing of Delphi, GM's parts supplier, which was spun out of General Motors several years ago, as a means of driving down wages, and generating new inflows of cash. "The edge of the cliff appears to be drawing closer," the *Financial Times* reported. "If GM loses its investment grade rating, some holders of its bonds will be forced [by law and regulation, as well as fiduciary responsibility] to sell them—and it is the extent of any market upheaval this could cause, that has been unnerving many." The Swiss daily *Neue Zürcher Zeitung* added, the same day, that GM will have between \$45-50 billion in debt to refinance between now and the end of 2006, and "it is unlikely that the junk-bond market could absorb such a large issuer."

Adding to the picture of the physical economic breakdown of the United States, the American Society of Civil Engineers, on March 9, released their 2005 "Report Card for America's Infrastructure." The report found, not surprisingly, that the entire hard infrastructure of the country is in a state

of disintegration, requiring trillions of dollars in investment. ASCE President William Henry told a Washington, D.C. press conference that the "time has come to call for the creation of a long-term infrastructure agenda for our nation," warning, "our infrastructure is sliding towards failure."

Raw Material Costs Soar

Another major sign of a world economy gone haywire is the soaring costs of strategic raw materials, fueled by a merger frenzy among commodity cartels, and a mad grab for control over the planet's raw material wealth, in anticipation of a dollar meltdown.

On March 9, the price per barrel of crude oil rose above \$55, nearly matching the all-time high of seven months ago. The same day, the Energy Information Administration issued a forecast that gasoline prices at the pump would continue to skyrocket, projecting a \$2.15 per gallon price for regular gas by the Summer.

Overall commodity inflation, particularly of key industrial metals like iron ore, skyrocketed. According to the March 10 *Wall Street Journal*, iron ore prices went up in mid-February by 71.5%. This was largely due to price gouging by the three iron ore mining cartels that control 75% of the world supply: Brazil's CVRD, Rio Tinto Zinc PLC, and BHP Billiton, Ltd.

Housing Bubble About to Blow?

Adding to the picture LaRouche developed is the sudden boost in long-term interest rates. During the first week in March, when the U.S. Treasury Department auctioned off ten-year Treasury bonds, which set the nation's mortgage rates, there were so few buyers that yields shot up to 4.42%, a seven-month high. A senior City of London investor, commenting on the jump in long-term Treasury yields in a March 10 discussion with *EIR*, warned, "If bond yields go up much higher in the U.S., things could get very nasty soon." He asked, "Is there any more capacity to take on this level of borrowing? I think not, and it will break probably sooner, rather than later." Disturbances in the ten-year bond market, he noted, directly impact on home mortgage rates; and most Americans have used their ballooning property values to sink deeper into consumer debt. "When this breaks," the source concluded, "it will get very nasty, and not too long from now."

The Bush Administration is continuing blissfully ignorant of this looming "perfect storm." And that is yet another dimension of the problem.

In the pages that follow, you will find in-depth reportage and analysis of some of these looming crises, and the response by the Bush Administration: to move recklessly forward on their agenda of Jacobin "democratic" insurrections in Central Europe and Southwest Asia, and a drive to steal the Social Security Trust Fund, as the cushion against sudden death of a dollar-based world monetary system that is looking more and more like a financial "Hoover Dam" set to crack.